



# REVIEW OF CAPITAL PROJECT CASH FLOW REQUIREMENTS

FISCAL YEAR  
2015

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## EXECUTIVE SUMMARY

This is the Auditor of Public Accounts second annual report to satisfy the Acts of Assembly Chapter 806 of the 2013 Session requirement to report on the adherence to the cash flow requirements for each project within Chapter 806 and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.

The capital project cash flow requirements process is effective; however, one Chapter 806 project and multiple Chapter 2 projects experienced some delays in obtaining planning funds from the Central Capital Planning Fund because it is not adequately funded. The Advisory Committee is meeting quarterly to evaluate capital projects. Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit. Accounts is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely based on Planning and Budget's request. However, Planning and Budget does not always timely reimburse the Central Capital Planning Fund when projects are approved for construction because inadequate funding causes Planning and Budget to have to prioritize the use of planning funds and try to find alternative funding for planning before they can reimburse and fund projects.

We had the following recommendations:

- The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.
- To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their capital project related responsibilities timely. In addition, Planning and Budget could encourage agencies to submit CO-2's for approval outside of the budget development season and General Assembly sessions.
- Agencies need to ensure that they process the BEX (transaction to execute an appropriation change within the budget and financial systems) to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

## - TABLE OF CONTENTS -

	<u>Pages</u>
EXECUTIVE SUMMARY	
INTRODUCTION	1-2
BACKGROUND	2
STATUS OVERVIEW	3-13
Planning Funds	3-8
Construction	8
GCPay and Tracking the \$250 Million Annual Limit	9-13
CASH FLOW RELATED DELAYS	13-16
TRANSMITTAL LETTER	17-18
APPENDIX A: CHAPTER 806 PROJECT STATUS	19-22
APPENDIX B: ACRONYMS FOR AGENCIES AND INSTITUTIONS	23
RESPONSIBLE OFFICIALS' RESPONSE	24-26
RESPONSIBLE OFFICIALS	27

## INTRODUCTION

Acts of Assembly Chapter 806 of the 2013 Session of the General Assembly states, “the Auditor of Public Accounts shall report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.” This report reviews the capital projects funded in Chapter 806, Item C-39.40 (Chapter 806) and their related cash flows. The main objectives of this report are to:

- Obtain a thorough understanding of the changes in the capital project cash flow requirements process and determine whether the changes are effective.
- Obtain a thorough understanding of the use of cash flow requirements as guidance to approve projects for construction and for the issuance of bonds to satisfy the needs of capital projects.
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects.
- Determine if the Six-Year Capital Outlay Advisory Committee (Advisory Committee) is meeting quarterly to evaluate capital projects.
- Determine if the Departments of Planning and Budget, General Services, and the Treasury have changed their monitoring process of the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit.
- Determine if Planning and Budget is timely reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.
- Determine if the Department of Accounts (Accounts) is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely.

The Auditor of Public Accounts issued its first annual report on this topic in January 2015 titled, [\*Review of Capital Project Cash Flow Requirements\*](#) (2014 Cash Flow Report). The 2014 Cash Flow Report provides a description of the cash flow processes as well as reports on timing delays. The Auditor of Public Accounts issued a report in January 2014 titled, [\*Review of Capital Outlay Funding and Cash Flow Processes\*](#). The January 2014 report provides a description and history of the capital project pooled approach and the Advisory Committee.

The focus of this second annual report will be the cash flow processes established around the Chapter 806 project pool and any changes to the process during fiscal year 2015. We included not only projects funded under item C-39.40, but also projects funded for pre-planning and detailed planning under item C-39.05 for Chapter 806 and other Acts of Assembly since 2013, since the timing and availability of planning funds are significant to the entire pool process. We further narrowed the scope of this report by primarily reviewing project activity within fiscal year 2015. The 2014 Cash Flow Report discussed the central cash flow processes in detail; therefore, this report will focus mainly on changes to the cash flow processes and delays within the processes that affect the timing of capital projects.

We conducted interviews with personnel at General Services, Planning and Budget, and Treasury. We attended the quarterly meetings of the Advisory Committee. We met with some agencies and institutions of higher education that have capital projects funded through the pooled project approach and have completed planning or detailed planning, been approved for construction, or started construction. We performed analysis of the timing of various steps within the capital project cash flow process. We tested for compliance with Item C-39.40 of Chapter 806 of the 2013 Acts of Assembly.

Currently there are 75 projects in the Chapter 806 pools. As of June 30, 2015, ten projects have completed detailed planning and 28 projects have started construction. See [Appendix A](#) for a listing of all projects and their status.

## BACKGROUND

The 2014 Cash Flow Report identified several processes that are imperative to the proper planning, timing, and delivery of bond proceeds to fund capital projects. These processes take place in various agencies and can be general processes used for all capital projects or specific processes created to address Chapter 806 reporting items. The 2014 Cash Flow Report addressed the essential processes to allow project approval to progress from planning to construction including funding at various phases. These processes are broken down into two independent but interrelated categories of Capital Project Processes and Capital Funding Processes. For the purposes of this report, detailed descriptions of the specific capital outlay processes will not be repeated unless there has been a change to the process.

The 2014 Cash Flow Report found the capital project cash flow requirements process was effective; however, projects experienced occasional delays in obtaining planning funds from the Central Capital Planning Fund, getting approval to move to construction from the Advisory Committee, and getting approval to access construction funding. Agencies were submitting cash flow requirements to Treasury for determining bond issuance timing while General Services used GCPay to forecast cash flow needs for the Advisory Committee. General Services and Treasury use different processes because Treasury has to consider cash flow needs of all capital projects not just Chapter 806 projects. Both processes are effective and have not resulted in any delays. Planning and Budget, General Services, and Treasury were monitoring the \$250 million annual debt limit, and as of June 30, 2014, Chapter 806 capital project expenditures had not exceeded the limit.

## STATUS OVERVIEW

Capital projects follow three basic steps, or phases, which include: Pre-planning, Detailed Planning, and Construction.

**Pre-planning phase** is the process meant to define the scope of the project and provide detailed definition and cost estimates. Pre-planning generally includes a statement of program definition, space requirements, estimates of gross and net square footage, and preliminary site analysis. General Services and agencies work together to develop a cost estimate during pre-planning to include total cost of the project, construction costs, cost per square foot, costing methodology, and any factors that are unique that may impact the total project cost.

**Detailed planning phase** includes the preparation of architectural and engineering documents up to the preliminary design stage.

**Construction phase** includes the preparation of final working drawings and specifications, advertising for a sealed bid or proposal, awarding a contract pursuant to law, and construction of a project until completion.

Within the pooled funded project approach, there are three funds; the Central Capital Planning Fund, the State Agency Capital Account, and the Public Educational Institution Capital Account. The Central Capital Planning Fund is a revolving fund that provides planning funds for projects in the pre-planning and detailed planning pools. The two Capital Accounts form the basis of the constructions pools and are replenished by additional bond appropriations as more projects receive approval for construction. All pool funded projects should flow through one of these two construction accounts. A project authorized for Virginia Public Building Authority (VPBA) Bonds uses the State Agency Capital Account. Alternatively, a project authorized for Virginia College Building Authority (VCBA) Bonds uses the Public Educational Institution Capital Account. To date, the General Assembly has created construction pools with VPBA and VCBA funded projects combined in one pool.

### Planning Funds

The Central Capital Planning Fund is vital for the start of capital projects. There are two stages to planning: Pre-planning and Detailed Planning. Planning funds can come from a few different sources. An agency may use funds from the Central Capital Planning Fund or their own non-general funds to complete pre-planning. In addition, projects placed directly into the construction pool with no prior planning can use bond money for planning purposes.

Agencies, and to a lesser extent institutions, cannot start the planning phase of a capital project without funding from the Central Capital Planning fund. If this fund does not have adequate resources, then projects stall in the pre-planning or detailed planning phase, waiting for other projects to move to construction and reimburse the Central Capital Planning Fund. In addition to using the Central Capital Planning Fund, agencies and institutions may request authority and appropriation to conduct pre-planning and detailed planning using non-general fund sources. However, many state agencies lack the non-general fund resources to bypass the Central Capital Planning Fund.

The Central Capital Planning Fund is reimbursed for planning funds when a project receives its appropriation for construction funding. For Chapter 806 projects, once an agency has completed detailed planning and they have agreed to a project cost with the Bureau of Capital Outlay Management (BCOM), BCOM forwards the information to the Advisory Committee for evaluation against the \$250 million annual limit. Once approved to move forward, BCOM issues a “funding report” that sets forth the estimate of the total cost of the project. Once the Advisory Committee reviews and approves the project to move to construction, Planning and Budget processes the appropriation transfer for construction. At this point, the funds are available to reimburse the Central Capital Planning Fund. Planning and Budget has to request that Accounts process the transaction that transfers the cash between the agency’s construction fund and the Central Capital Planning Fund. However, depending on circumstances, Planning and Budget may not send a request to Accounts after each project receives its appropriation. Rather they may wait until they have a batch of projects and then send a request to Accounts. Projects approved in Appropriation Acts other than Chapter 806 do not go through the Advisory Committee.

At the beginning of fiscal year 2015, 75 percent of the Central Capital Planning Fund resources were in use planning Chapter 806 projects as detailed in Table 1 below.

**Central Capital Planning Fund Activity**  
(as of July 1, 2014)

Table 1

Beginning Year Cash Balance				\$ 3,743,658
Funds in Use				
DGS	17091	Renovate Ninth Office Building		2,055,046
VSU	17511	Renovate Lockett Hall		474,350
DCR	17589	Construct Powhatan State Park, Phase I		548,307
SMV	17974	Construct Event Space and Upgrade Museum Exhibits		654,756
WWRC	17975	Renovate Dining Hall and Activities Building, Phase II		360,098
VSU	17980	Erosion and Sediment Control Storm Water Master Plan		179,550
NSU	17981	Replace Brown Hall		1,214,047
LU	17982	Construct Student Success Center		334,884
VCCS	17986	Renovate Main Hall, Middletown Campus, Lord Fairfax		419,202
VCCS	17987	Construct New Classroom and Administration Building, Blue Ridge		430,944
VCCS	17988	Renovate Building B, Parham Road Campus, J. Sargeant Reynolds		453,059
VCCS	17989	Renovate Reynolds Academic Building, Loudoun Campus, NVCC		447,181
VCCS	17990	Renovate Bayside Building, Virginia Beach Campus, Tidewater		472,431
VCCS	17991	Replace Anderson Hall, Virginia Western		572,710
VCCS	17992	Construct Phase III Academic Building, Midlothian Campus, John Tyler		828,578
VIMS	17993	Construct Consolidated Scientific Research Facility		411,719
VSDB	18069	Renovate Main Hall		1,356,467
FCM	18073	Construct Early American Industry Exhibits		191,313
<b>Total Central Capital Planning Fund</b>				<b>\$15,148,300</b>

Source: Commonwealth Accounting and Reporting System



During fiscal year 2015, one Chapter 806 project was delayed as a result of inadequate planning funds: General Services' Morson Row renovation project was initially delayed for lack of planning funds and later withdrawn due to a lack of construction funds. Since most Chapter 806 projects have been funded for planning, the Central Capital Planning Fund began funding 2014 Chapter 2 projects. At the end of fiscal year 2015, the Central Capital Planning fund only had an available cash balance of \$95,704, as noted in Table 2 below. The lack of available planning funds is likely to cause timing delays moving forward for any project relying on the Central Capital Planning Fund for planning funds.

### Central Capital Planning Fund Activity

(July 1, 2014, through June 30, 2015)

Table 2

Cash Balance, July 1, 2014					\$ 3,743,658
<b>Recoveries:</b>					
DGS	17091	Ch. 806	Renovate Ninth Office Building		2,055,046
VSU	17511	Ch. 806	Renovate Lockett Hall		474,350
SMV	17974	Ch. 806	Construct Event Space and Upgrade Museum Exhibits		654,756
VSU	17980	Ch. 806	Erosion and Sediment Control Storm Water Master Plan		179,550
NSU	17981	Ch. 806	Replace Brown Hall		1,214,047
LU	17982	Ch. 806	Construct Student Success Center		334,884
VCCS	17986	Ch. 806	Renovate Main Hall, Middletown Campus, Lord Fairfax		419,202
VCCS	17987	Ch. 806	Construct New Classroom and Administration Building, Blue Ridge		430,944
VCCS	17988	Ch. 806	Renovate Building B, Parham Road Campus, J. Sargeant Reynolds		453,059
VCCS	17990	Ch. 806	Renovate Bayside Building, Virginia Beach Campus, Tidewater		472,431
VCCS	17992	Ch. 806	Construct Phase III Academic Building, Midlothian Campus, John Tyler		828,578
<b>Total Recoveries:</b>					<b>7,516,847</b>
<b>Transfers to new projects:</b>					
DCR	18159	Ch. 2*	Renovate Historic Buildings, Walnut Valley Farm, Chippokes Plantation State Park		(473,975)
WWRC	18160	Ch. 2*	Renovate and Expand Anderson Vocational Training Building, Phase II		(983,000)
DBVI	18164	Ch. 2*	Renovate the Departmental Headquarters Building		(413,876)
DBHDS	18166	Ch. 2*	Expand Sexually Violent Predator Facility		(5,794,000)
DFS	18167	Ch. 2*	Expand Central Forensic Laboratory & Office of the Chief Medical Examiner Facility		(3,500,000)
<b>Total Transfers:</b>					<b>(11,164,851)</b>
<b>Cash Balance, June 30, 2015</b>					<b>\$ 95,654</b>

\*Acts of Assembly Chapter 2 of the 2014 Session of the General Assembly

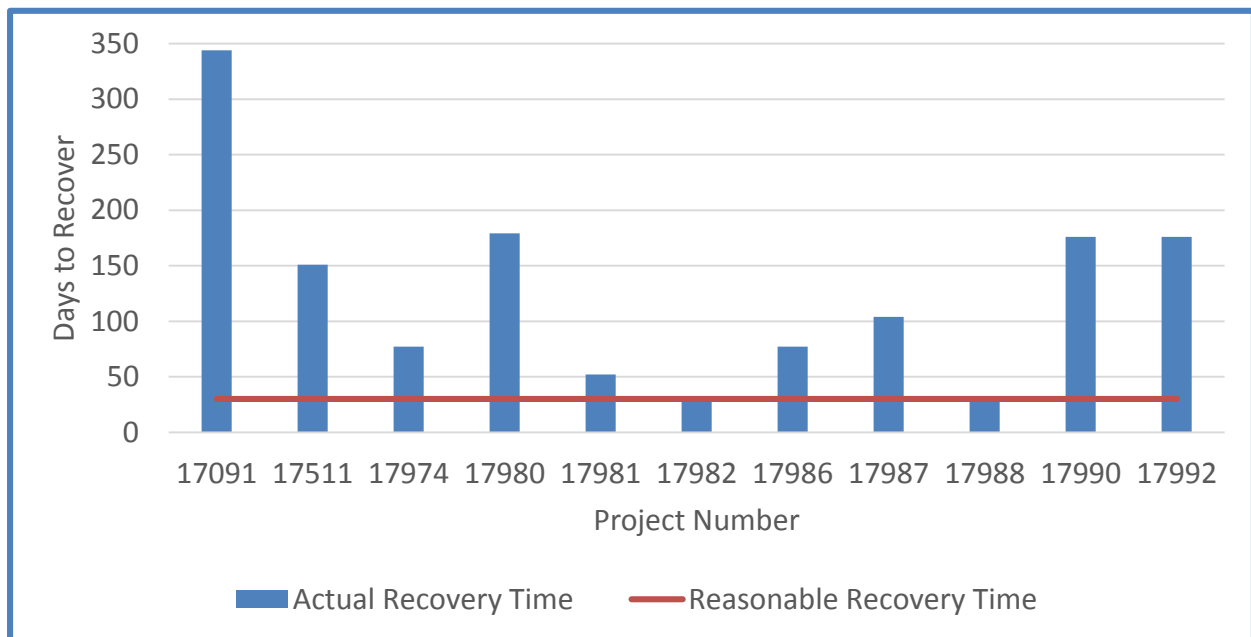
Source: Commonwealth Accounting and Reporting System



During fiscal year 2015, Planning and Budget recovered \$7,516,847 from agencies for 11 Chapter 806 projects and transferred \$11,164,851 to agencies for five Chapter 2 projects. There were significant delays in recovery time for these projects. We consider recovery time to be the days it took from the time a project had a CO-2 approving construction funding to the time the funds were transferred to the Central Capital Planning Fund. As seen in Chart 1, the recovery time ranged from 31 days to 344 days with the average recovery time of planning funds being 127 days. We considered 30 days to be a reasonable recovery time.

**Central Capital Planning Fund Recovery Time**  
Chapter 806 Projects

Chart 1



Source: Fiscal year 2015 CO-2 Forms from BITS for Chapter 806 projects  
Commonwealth Accounting and Reporting System

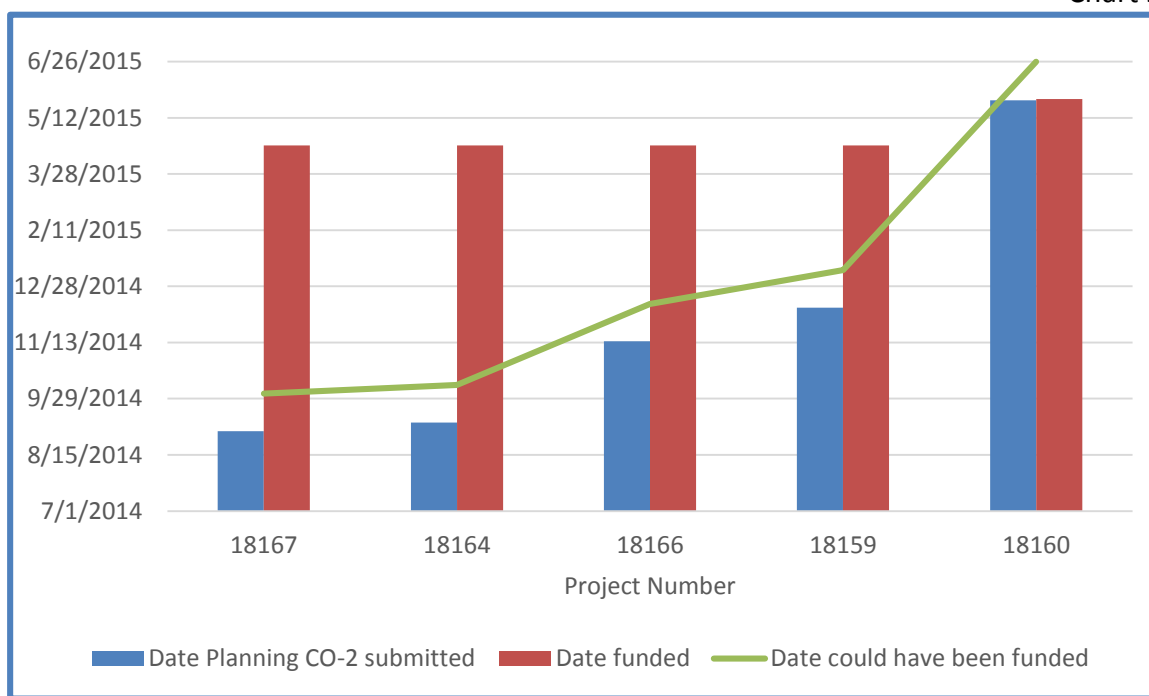
An analysis of the recovery times versus when new projects requested and received funding shows that projects were delayed because of the lag between the agencies requesting a recovery and Planning and Budget actually transferring the funds from a project back to the Central Capital Planning Fund. Chart 2 shows the five projects that received planning funds in fiscal year 2015. The bars compare the date the agency submitted the construction CO-2 (blue bar) to the date Planning and Budget transferred the funds back to the Central Capital Planning Fund (red bar). The difference in these bars represents the time elapsing between the request and the actual transfer. The green line demonstrates the ideal timing based on the assumption that Planning and Budget fulfills all funding requests within 30 days of the request. This also assumes that all recoveries are timely and there is adequate funding in the Central Capital Planning Fund. If Planning and Budget recovered funds when submitted and funded projects when requested, there would have been an average time

savings of 123 days, with a range from 100 days to 199 days. This delay is linked to the overall lack of availability of planning funds and how Planning and Budget and the Advisory Committee have to prioritize the use of planning funds and try to find alternative funding for planning. Planning and Budget works with agencies to find internal non-general funds to use for planning. Once they find resources for all of the projects, they release the planning funds to the remaining agencies that do not have alternative funding options.

### Central Capital Planning Fund Funding Analysis

#### Chapter 2 Projects

Chart 2



Source: Fiscal year 2015 CO-2 Forms from BITS for Chapter 2 projects  
Commonwealth Accounting and Reporting System

During fiscal year 2015, the two highest priority projects ready for planning were the project to expand the Sexually Violent Predator Facility and the project to expand the Central Forensic Laboratory and Chief Medical Examiner Facility. These two projects together required \$9.2 million or 61 percent of the entire Central Capital Planning Fund. Planning and Budget recovered \$4.4 million in October 2014, \$1.1 million in December 2014, \$1.2 million in February 2015 and \$0.8 million in May 2015 before they had enough funds available to fund the planning for these two projects. Therefore, these delays occurred because the Central Capital Planning Fund is not adequately funded.

The timing delays in funding new projects could have a negative effect on projects from a project planning perspective all the way to a project's operating purpose. For example, if a project is delayed in the detailed planning phase, two to three months could mean the difference between

a project being ready for construction in the fall versus winter, which could cause further delays due to weather. A project could also face higher costs than originally planned due to rising construction costs. However, during the recession, delays in planning projects often resulted in greater cost savings as competition for projects was greater.

Acts of Assembly Chapter 665 of the 2015 Session of the General Assembly, Item C-44 appropriated \$14,250,000 of general funds for detail planning for fiscal year 2016. However, the language says that the projects listed would be funded from funds in the Central Capital Planning Fund and any general funds appropriated. Based on that language, it appears that the General Assembly did not intend to deposit the general funds in the Central Capital Planning Fund, but instead directed the funds for planning those specific projects. This prevented the planning costs for these general funded projects from becoming debt funded. However, it did not help with the lack of funds available in the Central Capital Planning Fund or future projects that need planning funds.

---

#### **Observation**

*The Central Capital Planning Fund provides funding for all capital projects, not just those set out in Chapter 806. The lack of available planning funds has caused delays in planning projects during fiscal years 2014 and 2015.*

#### **Recommendation #1**

*The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.*

---

### **Construction**

At the conclusion of detailed planning, the Advisory Committee reviews all Chapter 806 projects to determine whether it is appropriate to advance the project to the construction phase based on the project information and the Chapter 806 \$250 million annual debt limit.

After approval for construction, a project receives funding through general funds or bond issuances administered by Treasury. After Planning and Budget approves the funding through the issuance of the CO-2 and BEX (transaction to execute an appropriation change within the budget and financial systems), BCOM will issue a CO-8 (capital outlay form that provides approval to award the construction contract), which allows the capital project to move into the construction phase. The CO-2 process for construction is similar to the detailed planning process, except for one important difference. When General Services receives a CO-2 form related to construction, they apply the project to the GCPay graph, described below in the section entitled “GCPay,” to ensure the approval of the project does not cause the total approved projects’ cash flows to exceed the \$250 million dollar annual limit established by the General Assembly. The Advisory Committee is responsible for monitoring this limit, and is involved in moving projects into the construction phase keeping this limit in mind.

### GCPay and Tracking the \$250 Million Annual Limit

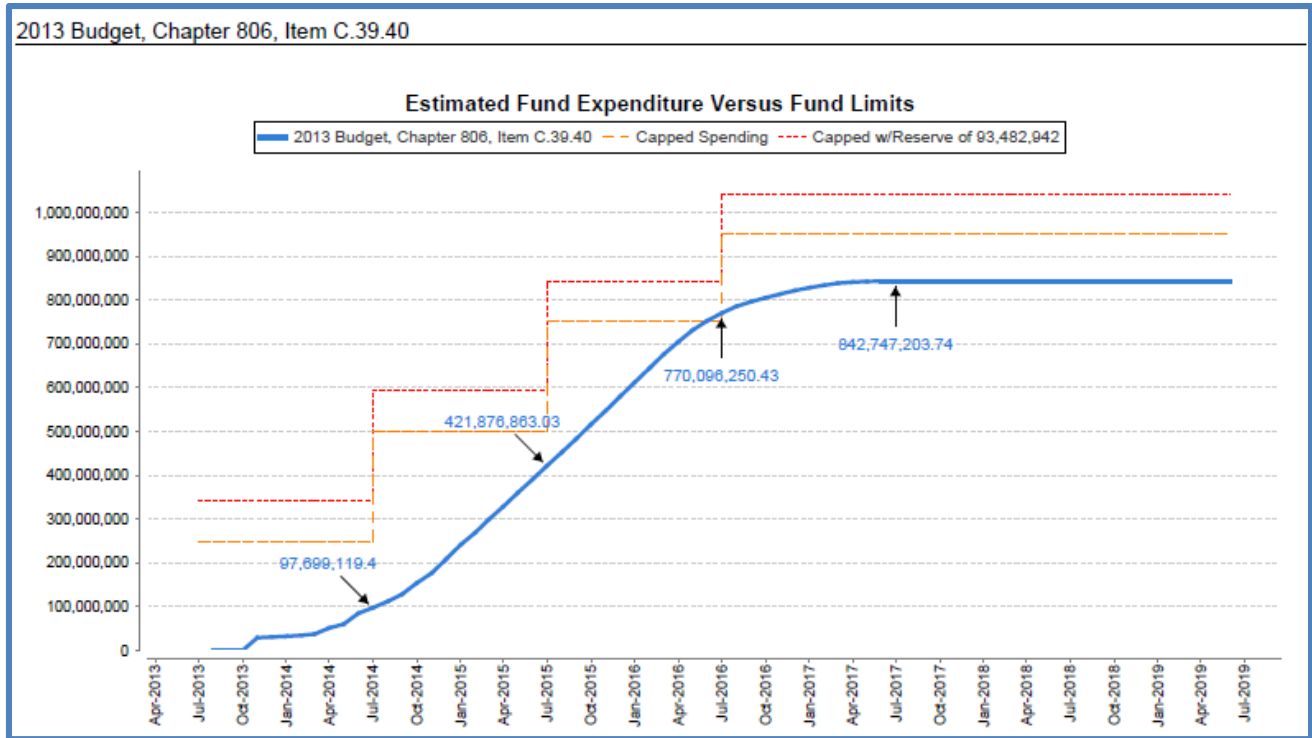
Chapter 806, Item C-39.40-A.8.a states that agencies and institutions included in this project pool will submit cash flow requirements for each project to the Directors of Planning and Budget and General Services, the chairmen of the House Appropriations and Senate Finance Committees, and the Advisory Committee. The cash flow projections must include quarterly cash needs to complete planning, working drawings, and construction to project completion. The Advisory Committee is responsible for reviewing the cash flow needs and ensuring that they do not approve projects for construction that will jeopardize staying under the \$250 million annual limit.

With General Services' assistance, the Advisory Committee uses GCPay to forecast cash flows for projects to ensure that the expenditures for approved projects will stay within the \$250 million annual limit. GCPay is a vendor that provides a web-based service to process payment applications and track expenditures for construction projects. GCPay uses the data about the project that the agency enters, such as project start and end dates and project cost, to forecast cash flows for each project.

General Services uses GCPay to create two future year cash flow graphs to monitor the \$250 million annual limit. The first graph (See Chart 3) includes Chapter 806 projects within the construction pool that are approved for construction and projects approved for detailed planning from the construction pool. The second graph (See Chart 4) includes all Chapter 806 projects within the construction pool. In fiscal year 2015, General Services started to track actual project expenditures based on data from the Commonwealth Accounting and Reporting System (CARS) in the projects approved graph (See Chart 5).

## Chapter 806, Projects Approved as of June 30, 2015

Chart 3



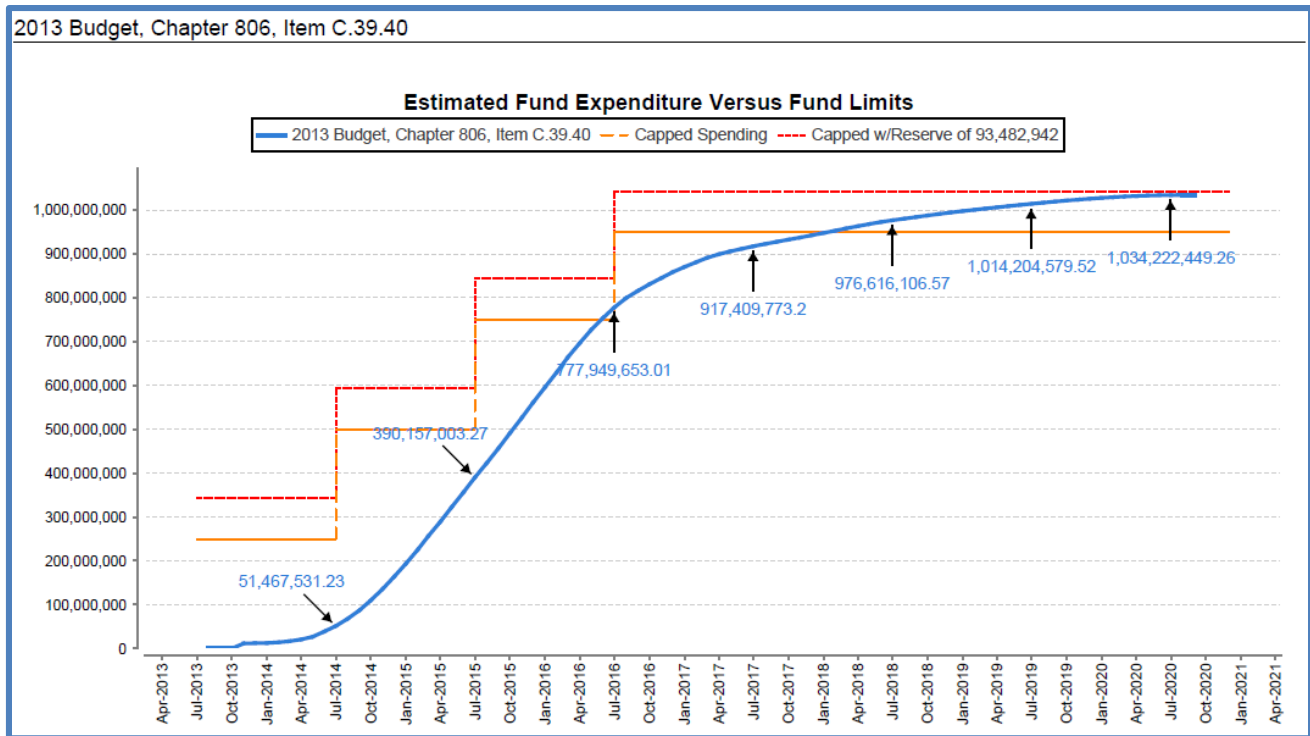
Source: GCPay Generated Report as shown in the June 30, 2015, State of the Pools Report

The approved projects graph (Chart 3) is more accurate and based on better estimates than the all projects graph (Chart 4) due to projects in Chart 3 completing the detailed planning process. The approved projects graph has more developed budgets being used to create the graph, including information pertaining to planning and construction, and more accurate start and end dates for particular phases of a project.

The all projects graph (Chart 4) is less accurate than the approved projects graph (Chart 3) because some projects have not been through the planning phases to refine the timing and costs. Chart 4 forecasts total estimated project costs over the entire bell curve, where Chart 3 uses information for planning and construction expenditures to more appropriately distribute the data within the graph. For example, Chart 3 shows estimated expenditures of \$421,876,863 at June 30, 2015, opposed to \$390,157,003 in Chart 4. One would expect the graph with all projects to have higher estimated expenditures at all points in the graph. However, Chart 4 is ignoring the assumption that planning money will be spent earlier in the process.

## Chapter 806, Projection for All Projects as of June 30, 2015

Chart 4



Source: GCPay Generated Report as shown in the June 30, 2015, State of the Pools Report

Chapter 806 appropriated \$877.5 million for the projects listed in item C-39.40-A. In addition, Chapter 1 from the 2014 General Assembly session amended Chapter 806 to appropriate an additional \$4.8 million for the same projects. The total \$882.3 million is subject to the \$250 million annual limit. Chapter 806 also rescinded the purpose for \$35.2 million from Chapter 2 of the 2012 Special Session and reassigned those bond funds to support the projects in item C-39.40. Finally, Chapter 806 stated that the projects could also use any remaining bond authorizations in Chapter 1 of the 2008 Acts of Assembly and Chapter 874 of the 2010 Acts of Assembly. As of June 30, 2015, General Services estimates the savings from the projects under these bond authorizations at approximately \$58.3 million. The estimated savings decreased from \$64 million to \$58.3 million between fiscal years 2014 and 2015. This \$58.3 million in savings could continue to drop if the remaining projects supported by those bonds exceed original estimates. However, a large number of projects are already complete, so General Services does not expect a large decrease in these savings. The additional \$35.2 and \$58.3 million, totaling \$93.5 million, are not subject to the \$250 million annual limit. Therefore, General Services considers these funds to be a reserve when they are forecasting project expenditures to determine how close they are coming to the annual limit.

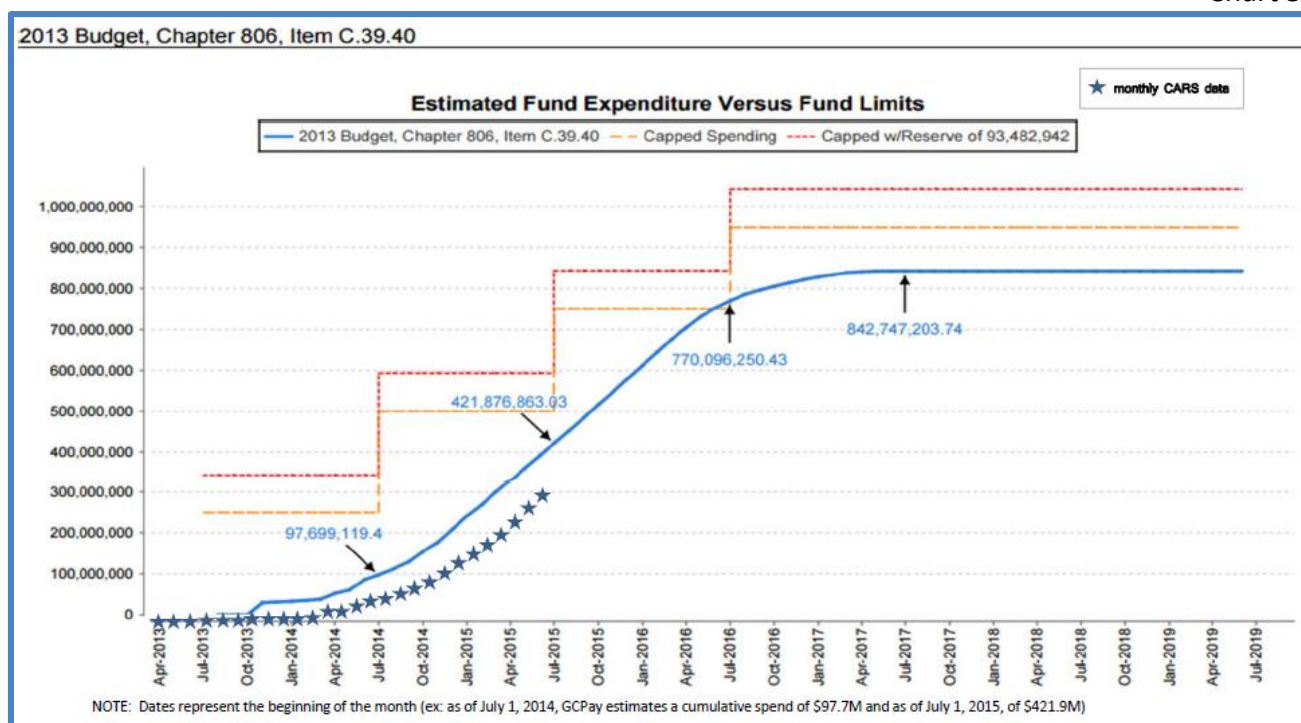
Chart 3 shows the estimated expenditures for all approved projects using information recorded in GCPay. The graph shows the current estimated Chapter 806 project expenditures per year (solid blue line) and the \$250 million yearly spending restriction set by the General Assembly (dotted yellow line.) The red dotted line represents the \$93.5 million dollar reserve on top of the

\$250 million yearly spending cap. It appears that the Chapter 806 projects approved through June 30, 2015, will not cause the estimated expenditures to exceed the spending cap put in place by the General Assembly. In addition, there is still room to authorize projects already included in the pool to proceed to construction before exceeding the limit.

General Services has started to track the actual expenditures compared to the GCPay estimated expenditures. As illustrated in Chart 5, the “blue stars” show the total actual Chapter 806 bond expenditures beginning in July 2013 and going through June 30, 2015, where they total \$320,017,661. In Chart 5, the solid blue line represents the GCPay estimated total project expenditures of \$421,876,863 as of June 30, 2015. This comparison of estimated expenditures to actuals demonstrates how conservative the GCPay graph is in forecasting expenditures; it also reflects the average three-month delay from when GCPay estimates the expenditure as obligated, and Treasury reimburses the agency, at their request, for the actual expense from bond appropriations in CARS. In reality, with the actual bond expenditures being significantly less than the forecast expenditures at any given point in time, project expenditures will shift down the graph into future years, which will cause actual expenditures to reach the spending limit later.

### CARS vs. GCPay Expenditure Analysis (through June 30, 2015)

Chart 5



Source: GCPay Generated Report as shown in the June 30, 2015, State of the Pools Report

It is important to note that the GCPay estimation process is independent of the Planning and Budget draw schedule process that Treasury uses to create budgets and determine timing for



planned bond issuances. Therefore, even if GCPay estimates are higher than actuals, they do not affect Treasury's decisions. When Treasury creates their forecast for future bond needs, they receive cash flow information from Planning and Budget, which agencies update annually or as needed.

Chart 4 shows the big picture of the expenditures for all of the projects in Chapter 806. Chart 4 illustrates a potential issue in July 2016, when there is the possibility that project expenditures could exceed the annual limit, which will be \$750 million at that time, by \$27.9 million. Given that Chart 4 is a conservative estimate and that not all projects have started as of June 2015, this serves as an indicator for the Advisory Committee to monitor the limit and analyze projects and their effect on the graph as projects move to construction to ensure expenditures remain below the limit. However, there are \$93.4 million in projected savings from previous pools that can be applied to this pool to address this potential issue. Chart 4 also indicates that the pool is coming close to the maximum funding amount for all projects in October of 2020. This indicates that the Advisory Committee will need to keep an eye on the overall pool as time elapses. The Advisory Committee intends to evaluate the need for additional funding for this pool in the 2017 General Assembly session. By this time, most of the projects will be through the planning phase and have good estimates to determine what the real need is.

### Cash Flow Related Delays

Chapter 806, Item C-39.40-A.12 requires the Auditor of Public Accounts to report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects. We reviewed and analyzed Chapter 806 projects for fiscal year 2015 in order to determine if there were any deviations or delays in the progress of authorized projects. We reviewed the roles of Treasury, General Services, Planning and Budget, Accounts, and the Advisory Committee in the process to determine if any slowdowns occurred.

During fiscal year 2015, we did not find any instances where Treasury's role in the bond issuance and requisition process resulted in any delays in project funding for any Chapter 806 capital projects. Treasury appears to have an adequate process to budget for and determine the timing of bond issuances.

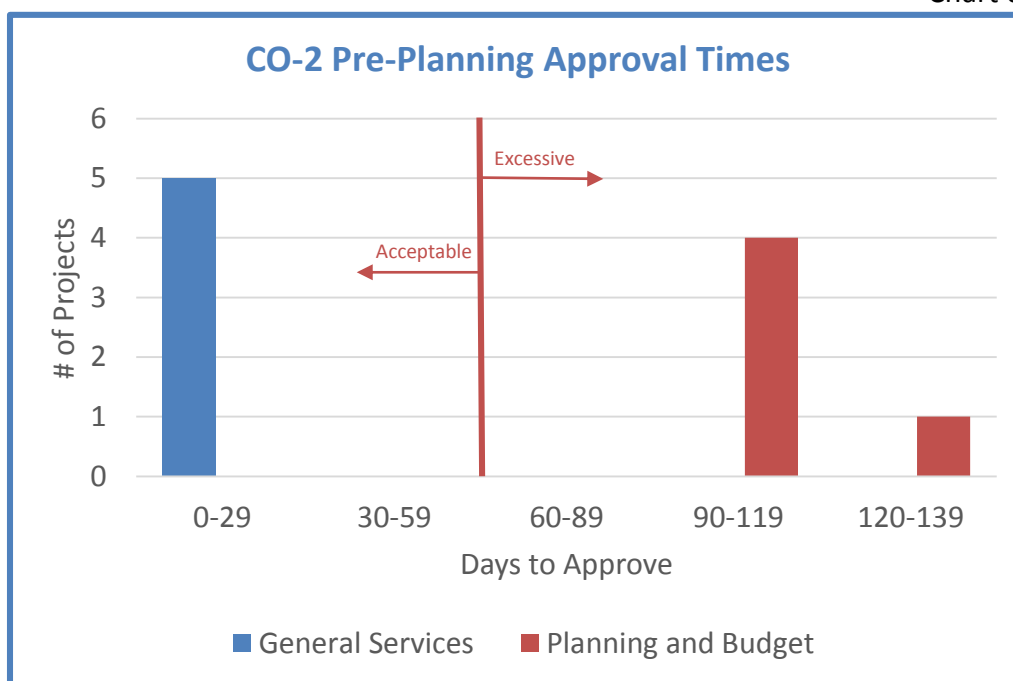
In addition, the Advisory Committee is meeting quarterly and has a process in place to advance projects to construction between quarterly meetings. As a result, the Advisory Committee did not cause any project delays.

While reviewing Accounts role in the reimbursement of the Central Capital Planning Fund process, we did not find any instances of delays in the processing of reimbursements for planning money from projects back to the Central Capital Planning Fund. Accounts processed reimbursements timely once Planning and Budget notified them of the need to move the funds.

When reviewing General Services and Planning and Budget's role in the capital project process, we analyzed the timing of CO-2's to determine if any delays occurred throughout the process. The CO-2 plays a time sensitive role in the process. The process begins with a CO-2 form, which authorizes funding for a project at the various phases including pre-planning, detailed planning, and construction. Both General Services and Planning and Budget approve the CO-2.

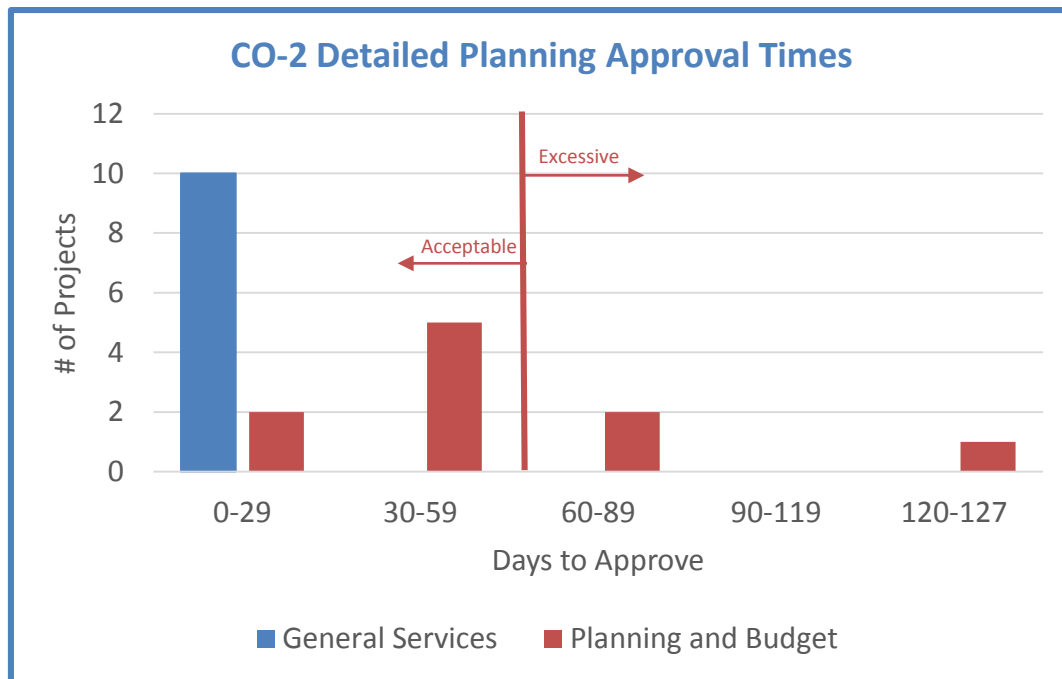
The following graphs depict the pre-planning CO-2 and Detailed Planning CO-2 approvals by the number of days from the time General Services or Planning and Budget received the form until the respective agency approved it. The CO-2 is an important capital outlay form in the overall process, as it allows funding to pass to the agency for a construction project in the planning and construction phases. We determined that approval times 60 days or longer were unreasonable.

Chart 6



Source: Fiscal year 2015 CO-2 Forms from BITS for Chapter 806 projects

Chart 7



Source: Fiscal year 2015 CO-2 Forms from BITS for Chapter 806 projects

While reviewing General Services, we did not find any instances in delays in the processing of CO-2's for planning or detailed planning.

Planning and Budget had five out of five projects with approval times of 60 days or more for pre-planning, with approval times ranging from 91 days to 139 days. Planning and Budget had three out of ten projects with approval times of 60 days or more for detailed planning, with approval times ranging from 62 to 127 days. There were multiple causes for these delays and some projects were delayed for multiple reasons.

- Planning and Budget delayed approval of CO-2's due to staffing issues. At certain times of the year, Planning and Budget prioritized other activities over approving CO-2's, such as developing the budget and responding to requests and actions during the 2015 Regular and Special Sessions of the General Assembly.
- Delays also occur due to the process of Planning and Budget working with the agency to get the detailed information on the CO-2 and BEX correct. This process can involve the forms going back and forth between the agency and Planning and Budget multiple times, sometimes resulting in adding weeks or months to the process.
- Some agencies did not submit a BEX timely to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request.

Planning and Budget cannot approve the CO-2 without a proper BEX. However, this was never the main cause for the delay as there was still a delay of 72 to 106 days until Planning and Budget approved the CO-2 after receiving the BEX. The delay in submission of the BEX sometimes put the approval time into budget preparation time and the General Assembly session. If processed with the original CO-2, Planning Budget might have been able to approve it before its busy season.

---

**Observation**

*Due to conflicting priorities, such as developing the budget and responding to requests and actions during the General Assembly sessions, Planning and Budget is not always able to address its responsibilities related to the Central Capital Planning Fund and approval of CO-2 forms timely.*

**Recommendation #2**

*To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their capital project related responsibilities timely. In addition, Planning and Budget could encourage agencies to submit CO-2's for approval outside of the budget development season and General Assembly sessions.*

---

---

**Observation**

*Agencies are not always timely in their submission to Planning and Budget of the BEX, which is necessary to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request. Planning and Budget cannot approve the CO-2 without a proper BEX.*

**Recommendation #3**

*Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.*

---



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 1, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the capital project cash flow processes and are pleased to submit our report entitled **Review of Capital Project Cash Flow Requirements**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

- Obtain a thorough understanding of the changes in the capital project cash flow requirements process and determine whether the changes are effective.
- Obtain a thorough understanding of the use of cash flow requirements as guidance to approve projects for construction and for the issuance of bonds to satisfy the needs of capital projects.
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects.
- Determine if the Six-Year Capital Outlay Advisory Committee (Advisory Committee) is meeting quarterly to evaluate capital projects.
- Determine if Planning and Budget, General Services, and Treasury have changed their monitoring process of the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit.
- Determine if Planning and Budget is timely reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.
- Determine if Department of Accounts is transferring planning money from Bond Funded projects back to the Central Capital Planning Fund timely.

## Conclusion

The capital project cash flow requirements process is effective; however, one Chapter 806 project and multiple Chapter 2 projects experienced some delays in obtaining planning funds from the Central Capital Planning Fund because it is not adequately funded. The Advisory Committee is meeting quarterly to evaluate capital projects. Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit. Accounts is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely based on Planning and Budget's request. However, Planning and Budget does not always timely reimburse the Central Capital Planning Fund when projects are approved for construction because inadequate funding causes Planning and Budget to have to prioritize the use of planning funds and try to find alternative funding for planning before they can reimburse and fund projects.

We had the following recommendations:

- The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.
- To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their capital project related responsibilities timely. In addition, Planning and Budget could encourage agencies to submit CO-2's for approval outside of the budget development season and General Assembly sessions.
- Agencies need to ensure that they process the BEX (transaction to execute an appropriation change within the budget and financial systems) to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

## Exit Conference and Report Distribution

We discussed this report with management of General Services, Planning and Budget, and Treasury. General Services' and Planning and Budget's responses to the findings identified in our audit are included in the section titled "Responsible Officials' Response." Treasury chose not to respond to the report. We did not audit the responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

**APPENDIX A**  
**CHAPTER 806 PROJECT STATUS**  
**AS OF JUNE 30, 2015**

Pre-Planning Pool			
Agency Name	Project Title	Project #	Phase
VCCS	Renovate Godwin Building, Annandale Campus, Northern Virginia	18087	Not Started
CNU	Construct and Renovate Fine Arts and Rehearsal Space	18086	Schematic
DGS	Renovate Supreme Court Interior	17490	Schematic
DGS	Capitol Complex Infrastructure and Security	18081	Schematic
JMU	Renovate Madison Hall	18085	Schematic
UVA	Renovate Gilmer Hall and Chemistry Building	18082	Schematic
LU	Construct New Admissions Office	18083	Preliminary Planning
LU	Construct New Academic Building	18084	Preliminary Planning
VIMS	Construct Facilities Management Building	18088	Preliminary Planning
VPISU CES	Improve Kentland Facilities	17830	Preliminary Planning

Detailed-Planning Pool			
Agency Name	Project Title	Project #	Phase
ODU	Construct Chemistry Building	18068	Not Started
VCCS	Construct Phase VII Academic Building, Annandale Campus, Northern Virginia	18075	Not Started
VCCS	Construct Bioscience Building, Blue Ridge	18078	Not Started
DBHDS	Replace Facility Roofs and Building Envelopes	18153	Schematic
DGS	Morson Row Renovation	18064	Schematic
FCM	Construct Early American Industry Exhibit	18073	Schematic
VCCS	Replace Academic and Administration Building, Eastern Shore	18076	Schematic
VCCS	Renovate Engineering and Industrial Technology Building, Danville	18077	Schematic
VCCS	Construct Student Service and Learning Resources Center, Christanna Campus, Southside VA	18079	Schematic
VCU	Renovate Raleigh Building	18071	Schematic
VSDB	Renovate Main Hall	18069	Schematic
CNU	Construct Library, Phase II	18074	Preliminary Planning



Detailed-Planning Pool			
Agency Name	Project Title	Project #	Phase
RU	Renovate Whitt Hall	18067	Preliminary Planning
UMW	Construct Jepson Science Center Addition	18066	Preliminary Planning
VCU	Renovate Sanger Hall, Phase II	18070	Preliminary Planning
VPISU	Renovate/Renew Academic Buildings	18065	Preliminary Planning
VMFA	Renovate Robinson House	18061	Preliminary Planning

Construction Pool			
Agency Name	Project Title	Project #	Phase
DVS	Hampton Roads Veterans Care Center	17957	Not Started
DVS	Northern Virginia Veterans Care Center	#####	Not Started
GMU	Construct Life Sciences Building, Prince William (Construct Bull Run Hall IIIB Addition)	18000	Not Started
DCR	Construct Highway Intersection, Powhatan State Park	18055	Schematic
DCR	Widewater State Park, Phase I A	18056	Schematic
VCCS	Renovate Reynolds Academic Building, Loudoun Campus, Northern Virginia	17989	Schematic
VCCS	Renovate Anderson Hall, Virginia Western	17991	Schematic
VCCS	Expand Workforce Development Center, Danville	18042	Schematic
VCU	Replacement Facility for the Virginia Treatment Center for Children	18060	Preliminary Planning
VCCS	Renovate Sowder Hall, Fauquier Campus, Lord Fairfax	18062	Preliminary Planning
VIMS	Construct Consolidated Scientific Research Facility	17993	Preliminary Planning
WWRC	Renovate Dining Hall and Activities Building, Phase II	17975	Preliminary Planning
DCR	New Cabins Various State Parks	18057	Working Drawings
DOC	Richmond P & P	18063	Working Drawings
JYF	Yorktown Outside Areas, Signage & Amenities	17977	Working Drawings
LU	Construct Student Success Center	17982	Working Drawings
SMV	Construct Event Space and Upgrade Museum Exhibits	17974	Working Drawings
VMFA	Renovate Robinson House	18061	Working Drawings
VCCS	Renovate Building B, Parham Road Campus, J. Sargeant Reynolds	17988	Working Drawings
VSP	Area Offices 14, 16 and 26, Only Phase 1 of 3	18054	Working Drawings
CNU	Construct Student Success Center	17872	Construction
DCR	Construct Powhatan State Park, Phase I	17589	Construction

Construction Pool			
Agency Name	Project Title	Project #	Phase
CWM	Renovate Tyler Hall	17994	Construction
DBHDS	Western State Hospital Supplement	17276	Construction
DFS	Expand Western Virginia Forensic Laboratory and Office of the Chief Medical Examiner Facility	17978	Construction
DGS	Renovation of the 9th Street Office Building	17091	Construction
DOC	Construct James River Water Line	17913	Construction
GMU	Construct Academic VII / Research III, Phase I	17999	Construction
GMU	Central Utility Plant	18043	Construction
JMU	Construct Health and Engineering Academic Facility (East Wing Hospital)	17997	Construction
LOV	State Library Improvements for Storage, Security and IT	18058	Construction
NSU	Replace Brown Hall	17981	Construction
ODU	Construct New School of Education	17875	Construction
RBC	Renovate Ernst Hall	17985	Construction
RU	Construct New Academic Building, Phase I and II	17984	Construction
UMW	Renovate Mercer and Woodard Halls	17983	Construction
UVA	Renovate the Rotunda	17915	Construction
VCCS	Renovate Main Hall, Middletown Campus, Lord Fairfax	17986	Construction
VCCS	Construct New Classroom and Administration Building, Blue Ridge	17987	Construction
VCCS	Renovate Bayside Building, Virginia Beach Campus, Tidewater	17990	Construction
VCCS	Construct Phase III Academic Building, Midlothian Campus, John Tyler	17992	Construction
VCU	Construct and Renovate Information Commons and Libraries	17998	Construction
VMI	Construct Corps Physical Training Facilities, Phase I and Phase II	17996	Construction
VPISU	Construct Classroom Building	17995	Construction
VSU	Renovate Lockett Hall	17511	Construction
VSU	Erosion and Sediment Control Storm Water Master Plan / Retention Pond	17980	Construction
VSU	Water Storage Tank and Campus Water Distribution Piping, Phases 1-3	18059	Construction
WWRC	Renovate Anderson Vocational Training Building, Phase I	17976	Construction

## **Legend**

#####:	Northern Virginia Veterans Care Center does not have an assigned project number yet.
Schematic:	Undergoing schematic design development and cost review.
Preliminary planning:	Undergoing preliminary design development and cost review; schematic cost review report issued.
Working drawings:	Undergoing working drawings development; preliminary cost review and detailed planning complete (CO-2 forwarded to Planning and Budget to BCOM).
Construction:	Approved for construction contract award via BCOM-approved CO-8, approval to award construction contract; or if funding is supplemental/Furniture, fixtures, and equipment only (for which no CO-8 is required).

## APPENDIX B

### ACRONYMS FOR AGENCIES AND INSTITUTIONS

#### CAPITAL OUTLAY FORMS

Acronym	Agency/Institution
<b>CNU</b>	Christopher Newport University
<b>CWM</b>	College of William and Mary
<b>DBHDS</b>	Department of Behavioral Health and Developmental Services
<b>DCR</b>	Department of Conservation and Recreation
<b>DGS</b>	Department of General Services
<b>DFS</b>	Department of Forensic Science
<b>DOC</b>	Department of Corrections
<b>DVS</b>	Department of Veterans Services
<b>VPISU CES</b>	VPISU Cooperative Extension Service
<b>FCM</b>	Frontier Culture Museum
<b>GMU</b>	George Mason University
<b>JMU</b>	James Madison University
<b>JYF</b>	Jamestown-Yorktown Foundation
<b>LU</b>	Longwood University
<b>LOV</b>	Library of Virginia
<b>NSU</b>	Norfolk State University
<b>ODU</b>	Old Dominion University
<b>RBC</b>	Richard Bland College
<b>RU</b>	Radford University
<b>SMV</b>	Science Museum of Virginia
<b>UMW</b>	University of Mary Washington
<b>UVA</b>	University of Virginia
<b>VCCS</b>	Virginia Community College System
<b>VCU</b>	Virginia Commonwealth University
<b>VSDB</b>	Virginia School for the Deaf and Blind
<b>VIMS</b>	Virginia Institute of Marine Science
<b>VMI</b>	Virginia Military Institute
<b>VMFA</b>	Virginia Museum of Fine Arts
<b>VPISU</b>	Virginia Tech
<b>VSP</b>	Virginia State Police
<b>VSU</b>	Virginia State University
<b>WWRC</b>	Woodrow Wilson Rehabilitation Center

Acronym	Capital Outlay Form
<b>CO-2</b>	Authority to Initiate Capital Outlay Project
<b>CO-8</b>	Approval to Award Construction Contract
<b>CO-17</b>	Building Permit for Construction



# COMMONWEALTH *of* VIRGINIA

*Department of General Services*

Christopher L. Beschler  
Director

Joseph F. Damico  
Deputy Director

1100 Bank Street  
Suite 420  
Richmond, Virginia 23219  
Voice (804) 786-3311  
FAX (804) 371-8305

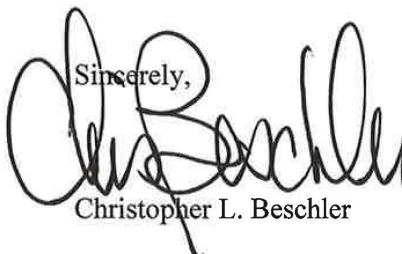
January 8, 2016

Martha S. Mavredes, CPA  
The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review the Auditor of Public Accounts, Review of Capital Project Cash Flow Requirements.

The Department of General Services (DGS) appreciates the time and effort the staff of the Auditor of Public Accounts (APA) spent review and preparing the report and generally agrees with the comments and recommendations contained in the report.

Sincerely,  
  
Christopher L. Beschler



# COMMONWEALTH of VIRGINIA

*Department of Planning and Budget*

DANIEL S. TIMBERLAKE  
Director

1111 E. Broad Street  
Room 5040  
Richmond, VA 23219-1922

January 12, 2016

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Commonwealth of Virginia  
James Monroe Building  
101 North 14<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Ms. Mavredes:

Thank you for the opportunity to respond to your report on the cash flow requirements for each capital project funded in Chapter 806, Item C-39.40.

I want to address the two recommendations specifically related to the Department of Planning and Budget (DPB):

Recommendation #2: *To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all their capital project related responsibilities timely. In addition, Planning and Budget could encourage agencies to submit CO-2's for approval outside of the budget development season and General Assembly sessions.*

As set out in the report, there are many reasons for which there may be a delay in processing the transactions for capital projects. Processing capital transactions, as with operating transactions, are ongoing execution transactions that can occur at any point in the fiscal year. DPB, like many agencies, has its "peak" seasons in which there are competing demands on analysts and management. During these times, some responsibilities, such as preparing budget recommendations for the Governor, responding to legislative inquiries, and preparing fiscal impact statements on legislation, necessarily are our first priority. DPB has encouraged agencies to submit the needed documents for capital projects prior to our busiest seasons, but, in many cases, that is not feasible.

Other factors, largely outside DPB's control, also contribute to delays. As noted in the report, one of these factors has been an insufficient amount of funding to meet the

FAX (804) 225-3291

(804) 786-7455

TDD (804) 786-7578



needs of capital projects approved for planning. Because there was not enough funding for all approved projects, DPB chose to seek guidance on priorities from the Six-Year Capital Outlay Plan Advisory Committee, which meets quarterly. Also, Please be aware that decisions regarding whether or not to proceed with certain pool projects are made by this Advisory Committee in order to stay within prescribed spending caps. That process inherently causes some delay in processing and moving the affected projects forward.

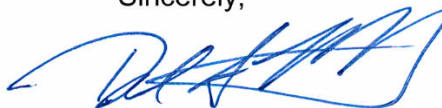
Finally, to restrict the submission process for CO-2's to certain time periods, as suggested, only creates potential delays in a different manner. With all that being said, I assure you that DPB will continue to review our internal procedures in order to review, analyze, and process these capital projects as quickly as we can. Furthermore, the additional appropriation that the 2015 General Assembly provided for planning, coupled with the additional appropriation proposed by the Governor in his introduced budget bill, should reduce significantly the delay in the provision of funding for planning.

Recommendation #3: *Agencies need to ensure that they process the BEX to support the CO-2 timely. Because the responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.*

DPB had a training session in August 2015 for agency capital staff and finance staff that handled capital issues. The need to submit the BEX along with the CO-2 was stressed during that session. Our preliminary impression, based on submissions since that training session, is that most agencies seem to better understand the important relationship between the CO-2 and BEX.

I appreciate the work your staff has put forth on this report and the opportunity they gave DPB staff to review the various drafts and provide comments, most of which were incorporated in the report. I look forward to working with you and your staff in the future on capital project issues.

Sincerely,



Daniel S. Timberlake

c: The Honorable Richard D. Brown  
Mr. Michael Maul



## **RESPONSIBLE OFFICIALS**

(as of June 30, 2015)

### **DEPARTMENT OF GENERAL SERVICES**

Richard F. Sliwoski, Director

### **DEPARTMENT OF PLANNING AND BUDGET**

Daniel S. Timberlake, Director

### **DEPARTMENT OF TREASURY**

Manju S. Ganeriwala, Treasurer

### **SIX-YEAR CAPITAL OUTLAY ADVISORY COMMITTEE**

Richard D. Brown  
Secretary of Finance

Daniel S. Timberlake  
Director, Department of Planning and Budget

Richard F. Sliwoski  
Director, Department of General Services

Peter A. Blake  
Executive Director, State Council of Higher Education for Virginia

Robert P. Vaughn  
Staff Director, House Appropriations Committee

Elizabeth B. Daley  
Staff Director, Senate Finance Committee